Record Request DTE-1 (Tr. 1, at 13)

Please recalculate Exhibit CE-4 by including in the calculation all of the Company's long-term debt, whether or not such debt is scheduled to be repaid in one year or less.

Response

Attachment RR-DTE-1 shows the recalculation of Exhibit CE-4 by including in the calculation, all of the Company's long-term debt, whether or not such debt is scheduled to be repaid in one year or less. The calculation set forth in Attachment RR-DTE-1 would increase the total amount of long-term debt by approximately $18.481 million (see Exh. DTE-1-1), thus reducing the balance of net plant to $141.867 million.

The Company believes, however, that it is inappropriate to include the debt that is due within a year in the net-plant calculation. Although this issue will be addressed in more detail in the Company's brief, it should be noted that including debt due within one year is inconsistent with the purpose of the net plant test, is not required by Department precedent and is not consistent with generally accepted accounting principles ("GAAP"). The net plant test is designed to protect against the impairment of capital by comparing a company's long-term capital commitments to the value of its plant, a long-term asset. G.L. c. 164, § 16. The $18.481 million in debt described in Exhibit DTE-1-1 will become due and payable within a year, and therefore its exclusion from the net plant calculation is consistent with the intent of the test. Because the "automatic" reduction of capitalization will occur within a year, there is no long-term impact. This is also fully consistent with the Department's standard of review, which excludes from the capitalization calculation debt that is to become due within a year. See, e.g., Southern Union Company, D.T.E. 02-27, at 12 (2002), citing Southern Union Company, D.T.E. 01-52, at 9 (2001) ("[t]he Department routinely excludes from capitalization debt instruments with a maturity date of less than one year…"). In that case, the Department held that notwithstanding a contrary GAAP result (which would have treated the obligation as long-term debt), for purposes of the net plant test, the actual payment date of the debt was controlling. Similarly, when debt is actually due and payable (i.e., maturing) should be the governing principle, notwithstanding a different stated or nominal maturity of the entire debt issue. This is consistent with Chapter 164, Section 14, which refers to debt "payable more than one year after the date thereof." In addition, the proceeds from the new debt will be used, in part, to pay for outstanding maturing securities

(Exh. CE-1, at 2; Exh. DTE-1-3). In Department cases in which the proceeds for a new issuance were to be used, in part, to retire "currently outstanding or maturing long-term debt" (Western Massachusetts Electric Company, D.P.U. 91-269, at 7 (1992)), the Department has not counted the maturing debt in the capital structure for purposes of applying the net plant test "because the Company's total stock and long-term debt will not exceed the Company's net plant after the proposed issuances." Id. at 9-10 (emphasis added). Finally, although not controlling, GAAP does not include debt to be repaid within one year as long-term debt (Tr. 13; Exh. CE-3). Thus, consistent with Department precedent, the $18.481 million of debt as of June 30, 2002, that is due within a year should not be included in the net plant calculation.